

CITY OF WEST LIBERTY

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

June 30, 2012

CITY OF WEST LIBERTY

Table of Contents

	<u>Page</u>
	1
Officials	2-3
Independent Auditor's Report	4-10
Management's Discussion and Analysis	
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 11-12
Statement of Activities	B 13
Governmental Fund Financial Statements:	
Balance Sheet	C 14
Reconciliation of the Balance Sheet - Governmental Funds to the	
Statement of Net Assets	D 15
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	E 16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund	
Balances (Deficit) - Governmental Funds to the Statement of Activities	F 17
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 18
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 19
Statement of Cash Flows	I 20-21
Notes to Financial Statements	22-39
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in	
Balances - Budget and Actual (Cash Basis) - Governmental	
Funds and Proprietary Funds	40
Budget to GAAP Reconciliation	41
Notes to Required Supplementary Information - Budgetary Reporting	42
Schedule of Funding Progress for Retiree Health Plan	43
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 45
Schedule of Revenues by Source and Expenditures by Function - All Government Funds	3 46
Insurance in Force	4 47
Schedule of :	
General Obligation and Revenue Bonds and Notes Maturities	5 48-49
Computation of Legal Debt Margin	6 50
Electric Utility - Restricted Accounts Required by Bond Ordinance	7 51
Sewer Utility - Revenue Bond and Note Restricted Accounts	
Required by Bond Ordinance	8 52
Sewer Rates and Customers	9 53
Independent Auditors' Report on Internal Control over Financial Reporting and	
on Compliance and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	54-55
Schedule of Findings	56-58

CITY OF WEST LIBERTY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Chad Thomas	Mayor	January 2012
Robert Hartman	Council Member	January 2014
William Cline	Council Member	January 2016
Sean Harder	Council Member	January 2016
Jose Zacarias	Council Member	January 2016
Melody Russell	Council Member	January 2016
Chris Ward	City Manager Clerk	Indefinite
P.J. Brewer	Chief of Police	Indefinite
Robbie Rock	Fire Chief	Indefinite
Karen A. Thurness	Deputy Clerk	Indefinite
Lee Geertz	Treasurer	Indefinite

CITY OF WEST LIBERTY

Randy L. Linn, CPA
David A. Schebler, CPA
Randall B. Sovey, CPA

HUCKFELDT & SMITH

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIABILITY COMPANY

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Liberty, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of West Liberty's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of West Liberty, at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

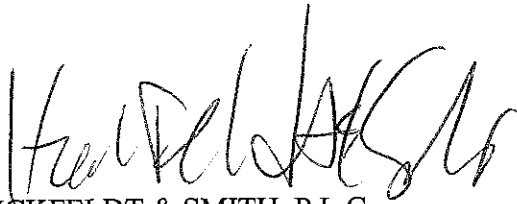
In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013, on our consideration of the City of West Liberty's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CITY OF WEST LIBERTY

Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty's basic financial statements. The financial statements were previously audited by others, in accordance with the standards referred to in the second paragraph of this report, for the three years ended June 30, 2011 (none of which are presented herein) and they expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied on our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Huckfeldt & Smith", is written over the printed name of the firm.

HUCKFELDT & SMITH, P.L.C.

January 8, 2013

CITY OF WEST LIBERTY
MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of West Liberty provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 4%, or approximately \$104,000, from fiscal year 2011 to fiscal year 2012. Property tax increased approximately \$9,500.

Program expenses of the City's governmental activities increased 10.6%, or approximately \$223,000, from fiscal year 2011 to fiscal year 2012. Public safety expenses increased approximately \$306,000. Public works expenses decreased approximately \$34,000.

The City's net assets decreased 3.1%, or approximately \$732,000, from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities increased approximately \$856,000 and the net assets of the business type activities decreased approximately \$1,588,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City of West Liberty as a whole and present an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City of West Liberty's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds, bonds, and notes payable, legal debt margin, restricted accounts required by bond ordinances, and fiscal year sewer rates and customers.

CITY OF WEST LIBERTY
Management's Discussion and Analysis
June 30, 2012

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, local option sales tax and state and federal grants finance most of these activities.
- Business type activities include the water, the sanitary sewer system, the electric system and the City's solid waste system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

CITY OF WEST LIBERTY
Management's Discussion and Analysis
June 30, 2012

Fund Financial Statements (Continued)

2. Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Sewer, Electric and Solid Waste Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

	Net Assets at Year-End					
	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 3,010,481	\$ 2,130,537	\$ 6,114,630	\$ 7,196,258	\$ 9,125,111	\$ 9,326,795
Capital Assets	10,699,220	10,624,127	15,911,071	16,635,212	26,610,291	27,259,339
Total Assets	13,709,701	12,754,664	22,025,701	23,831,470	35,735,402	36,586,134
Long-Term Liabilities	2,628,742	2,561,445	6,274,134	6,219,033	8,902,876	8,780,478
Other Liabilities	2,577,004	2,545,588	1,130,987	1,403,301	3,707,991	3,948,889
Total Liabilities	5,205,746	5,107,033	7,405,121	7,622,334	12,610,867	12,729,367
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	8,079,990	6,944,895	9,815,146	10,004,019	17,895,136	16,948,914
Restricted	1,269,084	1,156,889	2,794,628	2,740,282	4,063,712	3,897,171
Unrestricted	(845,119)	(454,153)	2,010,806	3,464,835	1,165,687	3,010,682
Total Net Assets	\$ 8,503,955	\$ 7,647,631	\$ 14,620,580	\$ 16,209,136	\$ 23,124,535	\$ 23,856,767

Net assets of governmental activities increased from fiscal year 2011 by approximately \$856,324, or 11%. Net assets of business type activities decreased from fiscal year 2011 by approximately \$1,588,000 or 9.8%. The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of the net assets that

CITY OF WEST LIBERTY
Management's Discussion and Analysis
June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(845,119) at the end of this year.

Changes in Net Assets for the Year Ended June 30,						
	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Service	\$ 246,369	\$ 272,117	\$ 7,525,911	\$ 7,584,334	\$ 7,772,280	\$ 7,856,451
Operating Grants, Contributions and Restricted Interest	585,086	385,383	0	0	585,086	385,383
Capital Grants, Contributions and Restricted Interest	271,590	291,352	0	0	271,590	291,352
General Revenues:						
Property Tax Levied For:						
General Purposes	978,468	890,313	0	0	978,468	890,313
Debt Service	34,156	112,764	0	0	34,156	112,764
Tax Increment Financing Revenues	129,404	128,722	0	0	129,404	128,722
Local Option Sales Tax	399,937	340,424	0	0	399,937	340,424
Grants and Contributions Not Restricted to Specific Purposes	0	5,249	0	0	0	5,249
Unrestricted Investment Earnings	2,956	2,285	47,754	76,173	50,710	78,458
Miscellaneous	0	115,293	0	0	0	115,293
Total Revenues	2,647,966	2,543,902	7,573,665	7,660,507	10,221,631	10,204,409
Program Expenses:						
Public Safety	810,615	761,107	0	0	810,615	761,107
Public Works	263,397	249,454	0	0	263,397	249,454
Culture and Recreation	718,947	665,290	0	0	718,947	665,290
General Government	758,460	547,847	0	0	758,460	547,847
Interest on Long-Term Debt	95,423	99,461	0	0	95,423	99,461
Water	0	0	546,612	457,225	546,612	457,225
Sewer	0	0	2,380,991	1,942,600	2,380,991	1,942,600
Electric	0	0	4,926,570	5,105,204	4,926,570	5,105,204
Solid Waste	0	0	452,848	455,374	452,848	455,374
Total Expenses	2,646,842	2,323,159	8,307,021	7,960,403	10,953,863	10,283,562
Transfers In	1,110,963	515,868	0	241,908	1,110,963	757,776
Transfers (Out)	(255,763)	(482,917)	(855,200)	(274,859)	(1,110,963)	(757,776)
Change in Net Assets	856,324	253,694	(1,588,556)	(332,847)	(732,232)	(79,153)
Net Assets Beginning of Year, as Restated	7,647,631	7,393,937	16,209,136	16,541,983	23,856,767	23,935,920
Net Assets End of Year	\$ 8,503,955	\$ 7,647,631	\$ 14,620,580	\$ 16,209,136	\$ 23,124,535	\$ 23,856,767

CITY OF WEST LIBERTY
Management's Discussion and Analysis
June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The City's net assets of governmental activities increased approximately \$856,000 during the year. Revenues for governmental activities decreased approximately \$26,000 over the prior year, with capital grants, contributions and restricted interest decreasing approximately \$20,000.

The cost of all governmental activities this year was approximately \$2.6 million compared to approximately \$2.3 million last year. However, as shown in the Statement of Activities on page 12, the amount the taxpayers ultimately financed for these activities was only \$1.5 million because some of the cost was paid by those directly benefited from the programs (\$246,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$857,000).

The City's net assets of business type activities decreased approximately \$1,588,000 during the year. Revenues for business type activities decreased approximately \$58,000 from the prior year while total expenses were approximately \$346,000 higher than the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of West Liberty completed the year, its governmental funds reported a combined fund balance of \$535,471, which is more than the \$200,186 total fund balance at June 30, 2011. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed an increase in fund balance of \$293,857 from the prior year to \$946,570.

The Capital Projects, Street Improvement Fund accounts for the annual capital improvements to the City's streets and roadway infrastructure. The fund ended fiscal year 2012 with a \$709,764 deficit balance. Capital project expenditures exceeded local option tax proceeds and interest income decreasing fund balance by \$104,917.

Proprietary Fund Highlights

The Enterprise, Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal year 2012 with a \$1,674,866 net asset balance compared to the prior year ending net asset balance of \$1,766,804.

The Enterprise, Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal year 2012 with a \$5,783,142 net asset balance compared to the prior year ending net asset balance of \$5,974,787.

The Enterprise, Electric Fund, which accounts for the operation and maintenance of the City's electric system, ended fiscal year 2012 with a \$7,194,390 net asset balance compared to the prior year ending net asset balance of \$8,372,165.

CITY OF WEST LIBERTY
Management's Discussion and Analysis
June 30, 2012

Proprietary Fund Highlights (Continued)

The Enterprise, Solid Waste Fund, which accounts for the operation and maintenance of the City's solid waste collection system, ended fiscal year 2012 with a \$(31,818) net deficit balance compared to the prior year ending net asset balance of \$95,380.

Budgetary Highlights

Over the course of the year, the City of West Liberty amended its budget one time. The amendment was done in May, 2012. This amendment was needed to cover unplanned disbursements.

The City's receipts were \$364,650 less than budgeted receipts, a variance of 3.4%. Total disbursements were \$2,904,116 less than budgeted. Actual disbursements for the business type activities functions were \$2,904,116 less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals, and other infrastructure. Capital assets for governmental activities totaled \$10,699,220 (net of accumulated depreciation) at June 30, 2012. Capital assets for business type activities totaled \$15,911,071 (net of accumulated depreciation) at June 30, 2012. See Note 3 to the financial statements for more information about the City's capital assets.

Long-Term Debt

At June 30, 2012, the City had \$2,443,600 before issuance costs of outstanding general obligation bonds and notes for governmental activities. Total debt outstanding for business type activities was \$6,093,635 before issuance costs at June 30, 2012.

The Constitution of the State of Iowa limits the amount of general obligation debt Cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City of West Liberty's outstanding general obligation debt is below its constitutional debt limit of approximately \$6.7 million. Additional information about the City's long-term debt is presented on Note 4 to the financial statements.

CITY OF WEST LIBERTY
Management's Discussion and Analysis
June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Several economic factors affected decisions made by the City of West Liberty in setting its fiscal 2013 budget. The City of West Liberty will experience insignificant changes in General Fund revenues and expenditures from fiscal year 2012 to fiscal year 2013. Inflation has been modest here, due, in part, to the slowing of the residential housing market state-wide, but there has been an increase in energy prices, which will also be a major influence on the budget.

The Tax levy rates per \$1,000 of taxable valuation for fiscal year 2013 are provided below:

General Levy	\$	8.10
Debt Service Levy		1.41
Tort Liability		0.56
Employee Benefits		3.23
Emergency Levy		0.27
Total	\$	<u>13.57</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the City Manager, Mr. Chris Ward, City of West Liberty, 409 N. Calhoun Street, West Liberty, Iowa 52776 or by telephone at (319) 627-2418.

CITY OF WEST LIBERTY
BASIC FINANCIAL STATEMENTS

CITY OF WEST LIBERTY
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and Pooled Investments	\$ 370,949	980,800	1,351,749
Receivables:			
Property Tax:			
Delinquent	21,196		21,196
Succeeding Year	1,056,974		1,056,974
Tax Increment Financing:			
Succeeding Year	128,663		128,663
Customer Accounts and Unbilled Usage (Net of Allowance for Uncollectibles)	0	1,058,530	1,058,530
Accounts	89,538	7,566	97,104
Accrued Interest	80	1,751	1,831
Due From Other Governments	29,148		29,148
Interfund Loan Receivable		221,699	221,699
Internal Balances	956,778	693,049	1,649,827
Inventories		162,284	162,284
Prepaid Expenses	49,539	85,248	134,787
Restricted Assets:			0
Cash and Pooled Investments	307,616	2,903,703	3,211,319
Capital Assets (Net of Accumulated Depreciation)	10,699,220	15,911,071	26,610,291
Total Assets	<u>13,709,701</u>	<u>22,025,701</u>	<u>35,735,402</u>
Liabilities			
Accounts Payable	73,306	418,930	492,236
Accrued Interest Payable	6,806	0	6,806
Salaries and Benefits Payable	20,645	15,746	36,391
Due to Other Governments	471	5,357	5,828
Interfund Loan Payable	221,699		221,699
Internal Balances	1,068,440	581,387	1,649,827
Payable From Restricted Assets		109,567	109,567
Deferred Revenue:			
Succeeding Year Property Tax	1,056,974		1,056,974
Succeeding Year Tax Increment Financing	128,663		128,663
Long-Term Liabilities:			
Portion Due or Payable Within One Year:			
General Obligation Bonds/Notes	338,600	16,400	355,000
Revenue Notes Payable	0	535,000	535,000
Bank Note	0	12,736	12,736
Compensated Absences	20,497	13,551	34,048
Portion Due or Payable After One Year:			
General Obligation Bonds/Notes (Net of \$52,875 Unamortized Discount)	2,052,125		2,052,125
Revenue Notes Payable (Net of of \$107,779 Unamortized Discount)	0	5,422,222	5,422,222
Bank Note	0	0	0
Retirement Incentive	78,600	136,255	214,855
Net OPEB Liability	138,920	137,970	276,890
Total Liabilities	<u>5,205,746</u>	<u>7,405,121</u>	<u>12,610,867</u>

CITY OF WEST LIBERTY
Statement of Net Assets (Continued)
June 30, 2012

	Governmental Activities	Business Type Activities	Total
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,079,990	9,815,146	17,895,136
Capital Improvements			0
Debt Service	132,056	1,838,957	1,971,013
Special Revenue Funds	260,565		260,565
Insurance Reserve	215,928		215,928
Fire Operations and Reserve	284,188		284,188
Cemetery Activities and Operations	112,545		112,545
Library Activities and Operations	77,750		77,750
Ambulance Activities and Operations	183,555		183,555
Other Purposes	2,497		2,497
Revenue Note Retirement	0	955,671	955,671
Unrestricted	(845,119)	2,010,806	1,165,687
Total Net Assets	<u>\$ 8,503,955</u>	<u>14,620,580</u>	<u>23,124,535</u>

City of West Liberty
Statement of Activities
Year Ended June 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Function/Programs:							
Government Activities:							
Public Safety	\$ 810,615	152,078	74,924	271,590	(312,023)	0	(312,023)
Public Works	263,397	2,919	351,998	0	91,520	0	91,520
Culture and Recreation	718,947	33,976	65,663	0	(619,308)	0	(619,308)
General Government	758,460	57,396	91,618	0	(609,446)	0	(609,446)
Interest on Long-Term Debt	95,423	0	883	0	(94,540)	0	(94,540)
Total Governmental Activities	\$ 2,646,842	246,369	585,086	271,590	(1,543,797)	0	(1,543,797)
Business Type Activities:							
Water	546,612	491,314	0	0	0	(55,298)	(55,298)
Sewer	2,380,991	2,469,663	0	0	0	88,672	88,672
Electric	4,926,570	4,239,640	0	0	0	(686,930)	(686,930)
Solid Waste	452,848	325,294	0	0	0	(127,554)	(127,554)
Total Business Type Activities	8,307,021	7,525,911	0	0	0	(781,110)	(781,110)
Total Function/Programs	\$ 10,953,863	7,772,280	585,086	271,590	(1,543,797)	(781,110)	(2,324,907)
General Revenues:							
Property and Other City Tax Levied for:							
General Purposes							
Debt Service							
Tax Increment Financing							
Local Option Sales Tax							
Grants and Contributions not Restricted to Specific Purpose							
Unrestricted Investment Earnings							
Total General Revenues					978,468	0	978,468
					34,156	0	34,156
					129,404	0	129,404
					399,937	0	399,937
					2,956	47,754	50,710
					1,544,921	47,754	1,592,675
Transfers In							
Transfers (Out)					1,110,963	0	1,110,963
					(255,763)	(855,200)	(1,110,963)
Change in Net Assets					856,324	(1,588,556)	(732,232)
Net Assets Beginning of Year, as Restated					7,647,631	16,209,136	23,856,767
Net Assets End of Year					8,503,955	14,620,580	23,124,535

See Notes to Financial Statements.

CITY OF WEST LIBERTY
Balance Sheet
Governmental Funds
June 30, 2012

	General	Capital Projects Street Improvement	Nonmajor	Total
<u>Assets</u>				
Cash and Pooled Investments	\$ 678,565	0	0	678,565
Receivables:				
Property Tax:				
Delinquent	16,847	0	4,349	21,196
Succeeding Year	947,084	0	109,890	1,056,974
Tax Increment Financing:				
Succeeding Year	0	0	128,663	128,663
Accounts (Net of Allowance for Uncollectibles)	89,538	0	0	89,538
Accrued Interest	80	0	0	80
Due from Other Funds	469,869	0	360,398	830,267
Due From Other Governments	3,011	0	26,137	29,148
Prepaid Expenditures	43,415	0	6,123	49,538
Total Assets	\$ 2,248,409	0	635,560	2,883,969
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts Payable	\$ 70,131	0	3,174	73,305
Salaries and Benefits Payable	19,433	0	1,212	20,645
Due to Other Funds	264,720	709,764	93,956	1,068,440
Due to Other Governments	471	0	0	471
Deferred Revenue:				
Succeeding Year Property Tax	947,084	0	109,890	1,056,974
Succeeding Year Tax Increment Financing	0	0	128,663	128,663
Total Liabilities	1,301,839	709,764	336,895	2,348,498
Fund Balances:				
Nonspendable:				
Prepaid Expenditures	43,415	0	6,123	49,538
Restricted For:				
Debt Service	0	0	132,056	132,056
Cemetery Operations	67,980	0	0	67,980
Road Use	0	0	234,940	234,940
Community Development	0	0	19,502	19,502
Assigned For:				
Insurance Reserve	215,928	0	0	215,928
Fire Operation and Reserve	284,188	0	0	284,188
Cemetery Activities and Operations	44,565	0	0	44,565
Library Activities and Operations	77,750	0	0	77,750
Ambulance Activities and Operations	183,555	0	0	183,555
Other Purposes	2,497	0	0	2,497
Unassigned	26,692	(709,764)	(93,956)	(777,028)
Total Fund Balances	946,570	(709,764)	298,665	535,471
Total Liabilities and Fund Balances	\$ 2,248,409	0	635,560	2,883,969

City of West Liberty
 Reconciliation of the Balance Sheet -
 Governmental Funds to the Statement of Net Assets
 Year Ended June 30, 2012

Total Governmental Fund Balances (Page 14)	\$	535,471
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$17,382,218 and the accumulated depreciation is \$6,682,998.		10,699,220
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Long-term liabilities, including bonds/notes payable, compensated absences payable, retirement incentives payable, accrued interest payable, interfund loan payable, and other postemployment benefits payable are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,730,736)</u>
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Net Assets of Governmental Activities (Page 12)	\$	<u><u>8,503,955</u></u>
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City of West Liberty
Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended June 30, 2012

	<u>Capital Projects</u>			
		<u>Street</u>		
	<u>General</u>	<u>Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:				
Property Tax	\$ 902,442	0	110,181	1,012,623
Tax Increment Financing	0	0	129,404	129,404
Other City Tax	266,627	133,313	0	399,940
Licenses and Permits	16,272	0	0	16,272
Use of Money and Property	7,616	0	904	8,520
Intergovernmental	75,079	0	351,468	426,547
Charges for Service	203,540	0	0	203,540
Miscellaneous	496,317	0	0	496,317
Total Revenues	1,967,893	133,313	591,957	2,693,163
Expenditures:				
Operating:				
Public Safety	1,200,118	0	0	1,200,118
Public Works	77,468	0	185,319	262,787
Culture and Recreation	790,730	0	0	790,730
General Government	186,254	0	0	186,254
Debt Service	0	0	423,010	423,010
Capital Projects	170,092	180,087	0	350,179
Total Expenditures	2,424,662	180,087	608,329	3,213,078
Excess (Deficiency) of Revenues Over (Under) Expenditures	(456,769)	(46,774)	(16,372)	(519,915)
Other Financing Sources (Uses):				
Operating Transfers In	811,340	0	299,623	1,110,963
Operating Transfers (Out)	(60,714)	(58,143)	(136,906)	(255,763)
Total Other Financing Sources (Uses)	750,626	(58,143)	162,717	855,200
Net Change in Fund Balances	293,857	(104,917)	146,345	335,285
Fund Balances (Deficit) Beginning of Year	652,713	(604,847)	152,320	200,186
Fund Balances (Deficit) End of Year	\$ 946,570	(709,764)	298,665	535,471

City of West Liberty
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances (Deficit) -
Governmental Funds to the Statement of Activities
Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds (Page 16) \$ 335,285

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for Capital Assets	\$ 673,288	
Depreciation Expense	<u>(593,849)</u>	79,439

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds 11,689

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Repaid	459,971
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated Absences	9,966	
Other Postemployment Benefits	(39,084)	
Current Year Retirement Incentive Expense	(1,450)	
Interest on Long-Term Debt	<u>508</u>	<u>(30,060)</u>

Change in Net Assets of Governmental Activities (Page 13) \$ 856,324

CITY OF WEST LIBERTY

Statement of Net Assets

Proprietary Funds

June 30, 2012

	Enterprise Funds				
	Water	Sewer	Electric	Solid Waste	Total
Assets					
Cash and Pooled Investments	\$ 0	0	950,800	30,000	980,800
Receivables (Net of Allowance for Uncollectibles):					
Customer Accounts and Unbilled Usage	110,555	342,945	555,543	49,487	1,058,530
Accounts	0	0	7,566	0	7,566
Accrued Interest	262	61	1,384	44	1,751
Interfund Loan Receivable	0	0	221,699	0	221,699
Due From Other Funds	0	494,353	198,696	0	693,049
Inventories	41,938	852	119,494	0	162,284
Prepaid Expenses	7,448	12,152	51,628	14,020	85,248
Restricted Cash and Pooled Investments	646,108	1,036,970	1,203,425	17,200	2,903,703
Capital Assets (Net of Accumulated Depreciation)	1,329,231	7,663,513	6,802,583	115,744	15,911,071
Total Assets	<u>2,135,542</u>	<u>9,550,846</u>	<u>10,112,818</u>	<u>226,495</u>	<u>22,025,701</u>
Liabilities					
Accounts Payable	31,525	78,720	307,569	1,116	418,930
Salaries and Benefits Payable	2,543	3,281	6,707	3,215	15,746
Due to Other Funds	365,918	0	0	215,469	581,387
Due to Other Governments	0	0	5,355	2	5,357
Payable From Restricted Assets:					
Payable From Restricted Assets	0	19,485	90,082	0	109,567
General Obligation Bonds/Notes	0	16,400	0	0	16,400
Revenue Notes Payable	0	145,000	390,000	0	535,000
Bank Note Payable Due Within One Year	0	0	0	12,736	12,736
Long-Term Liabilities:					
GO Bonds Payable					
Revenue Notes Payable	0	3,423,559	1,998,663	0	5,422,222
Compensated Absences	4,903	916	6,038	1,694	13,551
Retirement Incentive	31,490	43,470	48,795	12,500	136,255
Net OPEB Liability	24,297	36,873	65,219	11,581	137,970
Total Liabilities	<u>460,676</u>	<u>3,767,704</u>	<u>2,918,428</u>	<u>258,313</u>	<u>7,405,121</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	1,329,231	4,059,069	4,323,838	103,008	9,815,146
Restricted for:					
Revenue Note Retirement	0	375,563	580,108	0	955,671
Improvement	622,108	457,041	742,608	17,200	1,838,957
Unrestricted	(276,473)	891,469	1,547,836	(152,026)	2,010,806
Total Net Assets	<u>\$ 1,674,866</u>	<u>5,783,142</u>	<u>7,194,390</u>	<u>(31,818)</u>	<u>14,620,580</u>

CITY OF WEST LIBERTY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012

	Enterprise Funds				
	Water	Sewer	Electric	Solid Waste	Total
Operating Revenues:					
Charges for Service	\$ 491,314	2,469,663	4,239,640	325,294	7,525,911
Total Operating Revenues	<u>491,314</u>	<u>2,469,663</u>	<u>4,239,640</u>	<u>325,294</u>	<u>7,525,911</u>
Operating Expenses:					
Business Type Activities					
Cost of Sales and Services	401,097	1,795,624	4,296,322	415,008	6,908,051
Depreciation	145,515	345,113	581,455	36,025	1,108,108
Total Operating Expenses	<u>546,612</u>	<u>2,140,737</u>	<u>4,877,777</u>	<u>451,033</u>	<u>8,016,159</u>
					0
Operating Income (Loss)	<u>(55,298)</u>	<u>328,926</u>	<u>(638,137)</u>	<u>(125,739)</u>	<u>(490,248)</u>
Non-Operating Revenues (Expenses):					
Interest Income	5,244	7,999	34,155	356	47,754
Interest Expense	0	(240,254)	(48,793)	(1,815)	(290,862)
Transfers In	0	0	0	0	0
Transfers (Out)	(41,884)	(288,316)	(525,000)	0	(855,200)
Total Non-Operating Revenues (Expenses)	<u>(36,640)</u>	<u>(520,571)</u>	<u>(539,638)</u>	<u>(1,459)</u>	<u>(1,098,308)</u>
Change in Net Assets	(91,938)	(191,645)	(1,177,775)	(127,198)	(1,588,556)
Net Assets Beginning of Year, as Restated	<u>1,766,804</u>	<u>5,974,787</u>	<u>8,372,165</u>	<u>95,380</u>	<u>16,209,136</u>
Net Assets End of Year	<u>\$ 1,674,866</u>	<u>5,783,142</u>	<u>7,194,390</u>	<u>(31,818)</u>	<u>14,620,580</u>

CITY OF WEST LIBERTY
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Enterprise Funds				
	Water	Sewer	Electric	Solid Waste	Total
Cash Flows From Operating Activities:					
Cash Received From Customers and Users	\$ 468,283	2,340,920	4,383,439	319,723	7,512,365
Cash Paid for Sales and Services	(398,092)	(1,688,817)	(4,244,095)	(434,917)	(6,765,921)
Net Cash Provided (Used) by Operating Activities	70,191	652,103	139,344	(115,194)	746,444
Cash Flows From Noncapital Financing Activities:					
Advances to Other Funds, net of Repayments	26,456	(779,862)	321,986	187,146	(244,274)
Cash Flows From Capital and Related Financing Activities:					
Acquisition of Capital Assets	(226,978)	(134,314)	(23,494)		(384,786)
Principal Paid on Notes Payable		(149,760)	(385,000)	(23,580)	(558,340)
Principal Received on Notes Payable			37,931		37,931
Interest Paid on Notes Payable		(240,845)	(53,050)	(1,504)	(295,399)
Net Cash Used for Capital and Related Financing Activities	(226,978)	(524,919)	(423,613)	(25,084)	(1,200,594)
Cash Flows From Investing Activities:					
Interest on Investments	5,250	10,280	31,928	332	47,790
Net Increase (Decrease) in Cash and Cash Equivalents	(125,081)	(642,398)	69,645	47,200	(650,634)
Cash and Cash Equivalents Beginning of Year	771,189	1,679,368	2,084,580	0	4,535,137
Cash and Cash Equivalents End of Year	\$ 646,108	1,036,970	2,154,225	47,200	3,884,503

See Notes to Financial Statements.

CITY OF WEST LIBERTY
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2012

	Enterprise Funds				Total
	Water	Sewer	Electric	Solid Waste	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ (55,298)	328,926	(638,137)	(125,739)	(490,248)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	145,515	345,113	581,455	36,025	1,108,108
(Increase) Decrease in Customer Accounts Receivable and Unbilled Usage and Other Accounts Receivable	(61,164)	(104,668)	214,282	7,234	55,684
(Increase) Decrease in Inventories, at Cost	(666)	(14)	11,355	0	10,675
Increase in Prepaid Expenses	(1,050)	(1,661)	(4,449)	(2,497)	(9,657)
Increase (Decrease) in Accounts Payable	10,899	71,376	(10,741)	(2,656)	68,878
Increase (Decrease) in Salaries Payable	(2,264)	(762)	(15,882)	(6,747)	(25,655)
Decrease in Customer Deposits	0	(592)	(3,649)	0	(4,241)
Increase in Due to Other Governments	0	0	2,210	2	2,212
Increase (Decrease) in Accrued Compensated Absences	938	54	1,221	(1,196)	1,017
Increase in Accrued Retirement Incentive	26,190	3,570	(17,355)	(23,000)	(10,595)
Increase in Net OPEB Obligation	7,091	10,761	19,034	3,380	40,266
Net Cash Provided (Used) by Operating Activities	<u>\$ 70,191</u>	<u>652,103</u>	<u>139,344</u>	<u>(115,194)</u>	<u>746,444</u>
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:					
Current Assets:					
Cash and Pooled Investments	\$ 0	0	950,800	30,000	980,800
Restricted Assets:					
Cash and Pooled Investments:					
Revenue Note Retirement	0	32,929	551,516	0	584,445
Improvement	646,108	1,004,041	580,108	17,200	2,247,457
Refundable to Customers	0	0	71,801	0	71,801
Cash and Cash Equivalents at Year End	<u>\$ 646,108</u>	<u>1,036,970</u>	<u>2,154,225</u>	<u>47,200</u>	<u>3,884,503</u>

See Notes to Financial Statements.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of West Liberty is a political subdivision of the State of Iowa located in Muscatine County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of West Liberty provides numerous services to citizens, including public safety, public works, culture and recreation, and general government services. It also provides electric, water, sewer and solid waste utilities.

The financial statements of the City of West Liberty have been prepared in conformity with the U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of West Liberty has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City and such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Muscatine County Assessor's Conference Board, Muscatine County Emergency Management Commission, Muscatine County Landfill Commission and Muscatine County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories.

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Capital Projects:

The Street Improvement Fund is used to account for the collection of local option tax and the expenditure of those funds on street improvements.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects (Continued):

The City reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the City's electric system.

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's Wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City's solid waste collection system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursement from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, compensated absences, and retirement incentives are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Under term of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2012 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes

CITY OF WEST LIBERTY

Notes to Financial Statements

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2011.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due From and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

<u>Asset Class</u>	<u>Amount</u>
Land, Buildings and Improvements	\$ 25,000
Equipment and Vehicles	\$ 2,500
Infrastructure	\$ 35,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (in Years)</u>
Buildings	40-50
Improvements Other Than Buildings	15-50
Vehicles	3-15
Equipment	5-30
Infrastructure	15-20

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally ed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

CITY OF WEST LIBERTY

Notes to Financial Statements

June 30, 2012

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,317,540	0	0	\$ 1,317,540
Total Capital Assets Not Being Depreciated	<u>1,317,540</u>	<u>0</u>	<u>0</u>	<u>1,317,540</u>
Capital Assets Being Depreciated:				
Buildings	4,516,906	102,180	0	4,619,086
Improvements Other Than Buildings	1,050,660	49,729	0	1,100,389
Equipment and Vehicles	1,582,924	343,187	(197,781)	1,728,330
Infrastructure, Road Network	8,457,322	178,192	0	8,635,514
Total Capital Assets Being Depreciated	<u>15,607,812</u>	<u>673,288</u>	<u>(197,781)</u>	<u>16,083,319</u>
Less Accumulated Depreciation For:				
Buildings	1,877,464	91,617	0	1,969,081
Improvements Other Than Buildings	537,564	46,870	0	584,434
Equipment and Vehicles	1,112,933	173,623	(190,435)	1,096,121
Infrastructure, Road Network	2,773,264	281,739	0	3,055,003
Total Accumulated Depreciation	<u>6,301,225</u>	<u>593,849</u>	<u>(190,435)</u>	<u>6,704,639</u>
Total Capital Assets Being Depreciated, Net	<u>9,306,587</u>	<u>79,439</u>	<u>(7,346)</u>	<u>9,378,680</u>
Governmental Activities Capital Assets, Net	<u>10,624,127</u>	<u>79,439</u>	<u>(7,346)</u>	<u>10,696,220</u>
Business Type Activities:				
Capital Assets Being Depreciated:				
Buildings	2,484,897	0	0	2,484,897
Equipment and Vehicles	21,373,660	289,540	(27,491)	21,635,709
Infrastructure, Water and Sewer Network	9,041,849	95,246	0	9,137,095
Total Capital Assets Being Depreciated	<u>32,900,406</u>	<u>384,786</u>	<u>(27,491)</u>	<u>33,257,701</u>
Less Accumulated Depreciation For:				
Buildings	793,767	78,520	0	872,287
Equipment and Vehicles	9,285,340	733,066	(26,672)	9,991,734
Infrastructure, Water and Sewer Network	6,186,087	296,522	0	6,482,609
Total Accumulated Depreciation	<u>16,265,194</u>	<u>1,108,108</u>	<u>(26,672)</u>	<u>17,346,630</u>
Total Capital Assets Being Depreciated, Net	<u>16,635,212</u>	<u>(723,322)</u>	<u>(819)</u>	<u>15,911,071</u>
Business Type Activities Capital Assets, Net	<u>16,635,212</u>	<u>(723,322)</u>	<u>(819)</u>	<u>15,911,071</u>

CITY OF WEST LIBERTY

Notes to Financial Statements

June 30, 2012

NOTE 3 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of the City as follows:

Governmental Activities:

Public Safety	\$ 110,178
Public Works	363,319
Culture and Recreation	120,250
General Government	102
Total Depreciations Expense - Governmental Activities	<u>\$ 593,849</u>

Business Type Activities

Water	\$ 145,515
Sewer	345,113
Solid Waste	36,025
Electric	581,455
Total Depreciations Expense - Business Type Activities	<u>\$ 1,108,108</u>

NOTE 4 – LONG TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental Activities:					
Compensated Absences	30,463	20,497	30,463	20,497	20,497
Retirement Incentive	77,150	2,000	550	78,600	0
Net OBEP Liability	99,836	39,084	0	138,920	0
General Obligations Bonds/Notes	2,719,699	0	328,974	2,390,725	338,600
Total	<u>2,927,148</u>	<u>61,581</u>	<u>359,987</u>	<u>2,628,742</u>	<u>359,097</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business Type Activities:					
Compensated Absences	12,534	13,551	12,534	13,551	13,551
Retirement Incentive	146,850	6,760	17,355	136,255	0
Net OBEP Liability	97,704	40,216	0	137,970	0
Bank Note	36,005	0	23,869	12,736	12,736
General Obligations Bonds/Notes	31,160	0	14,760	16,400	16,400
Revenue Notes	6,466,620	0	509,398	5,957,222	535,000
Total	<u>6,790,873</u>	<u>60,527</u>	<u>577,916</u>	<u>6,274,134</u>	<u>577,687</u>

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 4 – LONG TERM LIABILITIES (Continued)

General Obligation Bonds/Notes

Governmental Activities

Four issues of unmatured general obligation bonds/notes, totaling \$2,443,600 before issuance costs are outstanding as of June 30, 2012. General obligations bonds/notes bear interest at rates ranging from 1.05% to 4.7% per annum and mature in varying annual amounts ranging from \$30,240 to \$135,000 with the final maturities due in the year ending June 30, 2025.

Details of the governmental activities general obligation bonds/notes payable at June 30, 2012 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2013
General Obligation Notes:						
Street Improvement Bond	08/15/09	1.25%-2.80%	06/01/16	Various	\$ 775,000	\$ 525,000
Pool Capital Note	09/01/02	2.75%-4.7%	06/30/13	Various	400,000	33,600
Elm Street Capital Note	11/01/06	3.75%-4.7%	06/01/17	Various	850,000	465,000
Capital Note	12/15/09	1.05%-4.10%	06/01/25	Various	1,600,000	1,420,000
Total General Obligation Notes						<u>\$ 2,443,600</u>

A summary of the annual governmental activities general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June, 30,	Principal	Interest	Total
2013	338,600	79,900	418,500
2014	315,000	71,092	386,092
2015	320,000	62,655	382,655
2016	325,000	53,135	378,135
2017	200,000	32,698	232,698
2018-2021	435,000	131,060	566,060
2022-2025	510,000	52,236	562,236
Total	<u>\$ 2,443,600</u>	<u>482,776</u>	<u>\$ 2,926,376</u>

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 4 – LONG TERM LIABILITIES (Continued)

Business Type Activities

One issue of unmatured general obligation bonds/notes, totaling \$16,400 is outstanding at June 30, 2012. The general obligation note bears interest at 4.7% per annum and matures in the year ending June 30, 2013.

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2012</u>
General Obligation Notes:						
Sewer Note	09/01/02	4.60%-4.70%	12/15/12	Various	\$ 195,000	<u>\$ 16,400</u>
Total General Obligation Notes						<u><u>\$ 16,400</u></u>

A summary of the annual business type general obligation note principal and interest requirements to maturity by year is as follows:

<u>Year Ending June, 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	16,400	385	16,785

Revenue and Bank Notes

Two issues of unmatured revenue notes, totaling \$6,065,000 before issuance costs are outstanding at June 30, 2012. These notes bear interest at rates ranging from 0.5% to 7.05% and mature in varying annual amounts ranging from \$135,000 to \$420,000 with the final maturity due in the year ending 2028.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to separate electric and wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 4 – LONG TERM LIABILITIES (Continued)

Revenue and Bank Notes (Continued)

During the year ended June 30, 2012, the City was in compliance with the revenue note provisions.

During the fiscal year ended June 30, 2008, the City received a loan of \$110,612 to be used for the purchase of a new garbage truck. The loan dated December 12, 2007, carries an interest rate of 5.0% and is due on October 15, 2012. As of June 30, 2012 the remaining balance was \$12,235. The loan is secured by the garbage truck.

Details of business type activities revenue and bank notes payable at June 30, 2012 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2012
Bank Note	12/12/07	5.00%	10/15/12	Various	\$ 110,612	\$ 12,235
Revenue Notes:						
Electric	05/03/11	0.5%-2.8%	12/01/17	Various	2,815,000	2,430,000
Sewer	12/15/08	4.0%-7.05%	06/01/28	Various	4,100,000	3,635,000
Total						6,065,000
Total Business Type Activities						\$ 6,077,235

A summary of the annual business type activities revenue and bank notes principal and interest requirements to maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	547,425	280,106	827,531
2014	545,000	266,868	811,868
2015	560,000	252,628	812,628
2016	570,000	235,773	805,773
2017	595,000	151,052	746,052
2018-2021	1,235,000	756,424	1,991,424
2022-2026	1,345,000	524,165	1,869,165
2027-2028	680,000	72,450	752,450
Total	\$ 6,077,425	\$ 2,539,466	\$ 8,616,891

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 5 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
General	Enterprise:	
	Electric	\$ 525,000
	Water	286,339
		<u>811,339</u>
Debt Service	General	60,714
	Special Revenue:	
	Road Use	7,502
	Tax Increment Financing	129,404
	Capital Project:	
	Street Improvement	58,143
	Enterprise:	
	Water	41,884
	Sewer	1,977
		<u>299,624</u>
Total		<u>\$ 1,110,963</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 6 – DUE FROM AND DUE TO OTHER FUNDS

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
Enterprise:	Enterprise:	
Electric	Solid Waste	\$ 28,597
	Capital Projects:	
	Street Improvement	75,143
	Dutton Project	93,956
		<u>197,696</u>
Enterprise:	Enterprise:	
Sewer	Water	365,918
	Solid Waste	128,435
		<u>494,353</u>
Debt Service	General	<u>127,707</u>
Special Revenue:	Capital Projects:	
Road Use Tax	Street Improvement	<u>213,189</u>
General	Capital Projects:	
	Street Improvement	421,432
	Enterprise:	
	Solid Waste	58,437
		<u>479,869</u>
Special Revenue:	General	
FEMA		<u>13,970</u>
Tax Increment Financing	General	<u>\$ 5,532</u>

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

NOTE 7 – PENSION AND RETIREMENT BENEFITS

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 7 – PENSION AND RETIREMENT BENEFITS (Continued)

Most regular plan members are required to contribute 5.38% of their annual salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$136,477, \$109,075, and \$101,891, respectively, equal to the required contributions for each year.

Deferred Compensation Plan (457(b)) ICMA

On April 20, 2010 the City of West Liberty Council passed a resolution that the City provides a one dollar for one dollar match up to \$150 per month per full time employee that participates in the optional 457(b) Deferred Compensation Plan.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City is a member of Iowa Association of Municipal Utilities.

NOTE 9 – LOCAL OPTION SALES TAX

Commencing on July 1, 1995, the City began collecting a one percent local option sales tax. As approved by voters, the City is required to utilize the sales tax revenue as follows:

From July 1, 2005

- 33 1/3% for local property tax relief
- 33 1/3% for streets, curbs & gutters
- 33 1/3% for community development projects including improvement of library, other facilities, community cleanup and infrastructure.

NOTE 10 – RPGI PARTICIPANT (AGENCY) AGREEMENT AND RPGI PRO RATA GUARANTY

The City signed an RPGI Participant Agreement dated April 15th, 2006 with the Resale Power Group of Iowa (RPGI), an Iowa Chapter 28E Organization of which the City is a member. The purpose of the agreement is to permit RPGI to act as an agent for the City for entering into agreements for the purchase, generation, distribution, sale and interchange of electric energy. The agreement shall continue for successive five year terms until terminated by either party.

Related to the preceding agreement, the City also signed an RPGI Pro Rata Guaranty dated April 16, 2006 with the Resale Power Group of Iowa (RPGI). The purpose of the guaranty is to obligate the City to be contingently liable to RPGI in its role as a contracting agent and guarantor for the purchase of electric energy from Ameren Energy Marketing Company (AEM) of Illinois in behalf of the members of RPGI. The City's share of the RPGI's \$20M guaranty to AEM is 7.61%, or \$1,528,088 based upon the agreement among the members of RPGI.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 10 – RPGI PARTICIPANT (AGENCY) AGREEMENT AND RPGI PRO RATA GUARANTY
(Continued)

The guaranty agreement was to terminate on February 15th, 2009, unless the agreement with the AEM terminates prior to that date. On February 15, 2009, the guaranty agreement was extended for five years.

NOTE 11 – DEFICIT BALANCES

At June 30, 2012, funds with deficit balances were as follows:

Capital Projects, Street Improvement	\$ 709,764
Capital Projects, Dutton Complex	\$ 93,956

These deficit balances are the result of project costs in excess of available funds. These deficits will be eliminated upon collection of road use tax and transfers to the Capital Project Fund.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer health plan which provides medical prescription drug and dental benefits for employees and retirees and their spouses/dependents. There are 32 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical prescription drug and dental benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of the plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual Required Contribution	\$ 103,069
Interest on Net OPEB Obligation	8,889
Adjustment to Annual Required Contribution	<u>(11,605)</u>
Annual OPEB Cost	100,353
Contributions Made	<u>21,003</u>
Increase in Net OPEB Obligation	79,350
Net OPEB Obligation Beginning of Year	<u>197,540</u>
Net OPEB Obligation End of Year	<u><u>\$ 276,890</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the City contributed \$194,731 to the medical plan. Plan members eligible for benefits contributed \$29,098 or 13% of the premium costs.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 101,379	6.82%	\$ 94,467
June 30, 2012	\$ 100,353	20.93%	\$ 79,350

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$646,110, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$646,110. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,141,399 and the ratio of the UAAL to covered payroll was 56.6%. As of June 30, 2012, there were no trust funds assets.

CITY OF WEST LIBERTY
Notes to Financial Statements
June 30, 2012

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care costs trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of the plan is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the alternative measurement method was used. The actuarial assumptions include a 4.5% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the 2004 United States Life Tables. Annual retirement was based on historical average retirement age for the covered group, active plan members were assumed to retire at age 57, or the first subsequent year in which the member would qualify for benefits.

Projected claim costs of the medical plan are \$958 per month for retirees less than age 65. There were no retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 13 – TERMINATION BENEFITS

The City offers a retirement incentive plan to its employees. The incentive is \$1,000 for every full year of service to the City beginning with a minimum of ten full years of service and a maximum of twenty-five full years of service. At June 30, 2012 the City has obligation to ten employees with a total liability of \$192,400. There were no actual early retirement expenditures for the year ended June 30, 2012.

NOTE 14 – SUBSEQUENT EVENTS

Management evaluated subsequent events through January 8, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to January 8, 2013 that provided additional evidence about the conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2012.

CITY OF WEST LIBERTY

REQUIRED SUPPLEMENTARY INFORMATION

City of West Liberty
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes
in Balances - Budget and Actual (Cash Basis) - Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Original Budget	Final Budget	Actual to Budget Variance
Receipts:						
Property Tax	\$ 1,012,623		1,012,623	997,068	997,068	15,555
Tax Increment Financing	129,404		129,404	129,420	129,420	(16)
Local Option	399,940		399,940	356,243	356,243	43,697
Licenses and Permits	16,272		16,272	38,050	38,050	(21,778)
Use of Money and Property	8,520	47,790	56,310	85,125	85,125	(28,815)
Intergovernmental	426,547		426,547	357,490	467,235	(40,688)
Charges for Service	203,540	7,512,365	7,715,905	8,379,670	8,379,670	(663,765)
Miscellaneous	198,535		198,535	134,100	167,375	31,160
Total Receipts	<u>2,395,381</u>	<u>7,560,155</u>	<u>9,955,536</u>	<u>10,477,166</u>	<u>10,620,186</u>	<u>(664,650)</u>
Disbursements:						
Public Safety	1,200,118		1,200,118	957,510	1,084,350	(115,768)
Public Works	262,787		262,787	383,694	383,694	120,907
Culture and Recreation	790,730		790,730	737,745	802,745	12,015
General Government	187,930		187,930	119,540	119,540	(68,390)
Debt Service	423,010		423,010	423,011	423,011	1
Capital Projects	350,179		350,179	275,000	275,000	(75,179)
Business Type Activities	0	6,953,598	6,953,598	9,396,117	9,857,617	2,904,019
Total Disbursements	<u>3,214,754</u>	<u>6,953,598</u>	<u>10,168,352</u>	<u>12,292,617</u>	<u>12,945,957</u>	<u>2,777,605</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(819,373)	606,557	(212,816)	(1,815,451)	(2,325,771)	2,112,955
Other Financing Sources, Net	<u>1,110,963</u>	<u>(1,413,571)</u>	<u>(302,608)</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,702,608</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	291,590	(807,014)	(515,424)	(415,451)	(925,771)	3,815,563
Balances Beginning of Year	<u>837,903</u>	<u>4,535,137</u>	<u>5,373,040</u>	<u>16,234,500</u>	<u>16,234,500</u>	<u>(10,861,460)</u>
Balances End of Year	<u>\$ 1,129,493</u>	<u>3,728,123</u>	<u>4,857,616</u>	<u>15,819,049</u>	<u>15,308,729</u>	<u>(7,045,897)</u>

CITY OF WEST LIBERTY
Budget to GAAP Reconciliation

Required Supplementary Information

Year Ended June 30, 2012

	Governmental Funds			Proprietary Funds		
	Cash Basis	Accrual Adjust- Ments	Modified Accrual Basis	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 2,395,381	(2,218)	2,393,163	7,560,155	13,510	7,573,665
Expenditures/Expenses	3,214,754	(1,676)	3,213,078	6,953,598	1,062,561	8,016,159
Net	(819,373)	(542)	(819,915)	606,557	(1,049,051)	(442,494)
Other Financing Sources, Net	1,110,963	(255,763)	855,200	(1,413,571)	267,509	(1,146,062)
Beginning Fund Balances/Net Assets	837,903	(637,717)	200,186	4,535,137	11,673,999	16,209,136
Ending Fund Balances/Net Assets	<u>\$ 1,129,493</u>	<u>(894,022)</u>	<u>235,471</u>	<u>3,728,123</u>	<u>10,892,457</u>	<u>14,620,580</u>

CITY OF WEST LIBERTY
Notes to Required Supplementary Information
Budgetary Reporting
June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for government with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget amendments did not increase budgeted revenues; however, the amendments did increase disbursements by \$653,340. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements in the general government and capital projects functions exceeded the amount budgeted.

CITY OF WEST LIBERTY
Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll (b-a)/c)
2012	July 1, 2009	\$ 0	646,110	\$ 646,110	0	\$ 1,711,108	37.8%
2011	July 1, 2009	\$ 0	646,110	\$ 646,110	0	\$ 1,253,266	51.6%
2010	July 1, 2009	\$ 0	646,110	\$ 646,110	0	\$ 1,141,399	56.6%

See Note 13 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WEST LIBERTY
Combining Balance Sheet
Nonmajor Governmental funds
June 30, 2012

	Special Revenue				Capital Projects - Dutton	Total
	Road Use	FEMA	TIF Urban Renewal	Debt Service		
\$	0	0	0	4,349	0 \$	4,349
	0	0	0	109,890	0	109,890
	0	0	128,663	0	0	128,663
	26,137	0	0	0	0	26,137
	213,189	13,970	5,532	127,707	0	360,398
	6,123	0	0	0	0	6,123
Total Assets	245,449	13,970	134,195	241,946	0	635,560

Assets

Receivables:

Property Tax:

Delinquent

Succeeding Year

Tax Increment Financing:

Succeeding Year

Due From Other Governments

Due From Other Funds

Prepaid Expenditures

Total Assets

Liabilities and Fund Balances

Liabilities:

Accounts Payable

Salaries and Benefits Payable

Due to Other Funds

Deferred Revenue:

Succeeding Year Property Tax

Succeeding Year Tax Increment Financing

Total Liabilities

Fund Balances

Nonspendable:

Prepaid Expenditures

Restricted For:

Debt Service

Road Use

Community Development

Unassigned

Total Fund Balances

Total Liabilities and Fund Balances

See Accompanying Independent Auditors' Report.

CITY OF WEST LIBERTY
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue				Capital Projects - Dutton	Total
	Road Use	FEMA	TIF Urban Renewal	Debt Service		
Revenues:						
Property Tax	\$ 0	0	0	110,181	0	110,181
Tax Increment Financing	0	0	129,404	0	0	129,404
Other City Tax	0	0	0	0	0	0
Use of Money and Property	0	0	21	883	0	904
Intergovernmental	351,468	0	0	0	0	351,468
Total Revenues	<u>\$ 351,468</u>	<u>0</u>	<u>129,425</u>	<u>111,064</u>	<u>0</u>	<u>591,957</u>
Expenditures:						
Operating:	0	0	0	0	0	
Public Works	185,319	0	0	0	0	185,319
Debt Service	0	0	0	423,010	0	423,010
Capital Projects	0	0	0	0	0	0
Total Expenditures	<u>185,319</u>	<u>0</u>	<u>0</u>	<u>423,010</u>	<u>0</u>	<u>608,329</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>166,149</u>	<u>0</u>	<u>129,425</u>	<u>(311,946)</u>	<u>0</u>	<u>(16,372)</u>
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	299,623	0	299,623
Operating Transfers (Out)	<u>(7,502)</u>	<u>0</u>	<u>(129,404)</u>	<u>0</u>	<u>0</u>	<u>(136,906)</u>
Total Other Financing Sources (Uses)	<u>(7,502)</u>	<u>0</u>	<u>(129,404)</u>	<u>299,623</u>	<u>0</u>	<u>162,717</u>
Net Changes in Fund Balances	158,647	0	21	(12,323)	0	146,345
Fund Balances Beginning of Year	82,416	13,970	5,511	144,379	(93,956)	152,320
Fund Balances End of Year	<u>\$ 241,063</u>	<u>13,970</u>	<u>5,532</u>	<u>132,056</u>	<u>(93,956)</u>	<u>298,665</u>

See Accompanying Independent Auditors' Report.

CITY OF WEST LIBERTY
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Revenues:	2012	2011	2010	2009
Property Tax	\$ 1,012,623	1,003,077	885,240	908,174
Tax Increment Financing Revenue	129,404	128,722	128,126	77,854
Other City Tax	399,940	340,424	346,164	404,484
Licenses and Permits	16,272	13,939	12,138	10,380
Use of Money and Property	8,520	16,611	24,846	35,028
Intergovernmental	426,547	665,765	355,020	371,963
Charges for Service	203,540	192,775	163,550	157,475
Miscellaneous	496,317	169,380	146,849	194,155
Contributions	0	0	84,374	80,140
Total	<u>\$ 2,693,163</u>	<u>2,530,693</u>	<u>2,146,307</u>	<u>2,239,653</u>
Expenditures:				
Operating:				
Public Safety	\$ 1,073,607	767,273	691,962	711,875
Public Works	262,787	297,001	438,445	385,483
Culture and Recreation	790,730	880,917	996,276	1,215,194
Community and Economic Development	0	0	0	0
General Government	186,254	144,649	125,713	133,730
Debt Service	423,010	414,881	336,939	303,119
Capital Projects	350,179	1,356,578	1,534,489	70,136
Total	<u>\$ 3,086,567</u>	<u>3,861,299</u>	<u>4,123,824</u>	<u>2,819,537</u>

CITY OF WEST LIBERTY

Insurance in Force

June 30, 2012

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>	<u>Remarks</u>	<u>Policy Number</u>	<u>Term</u>	<u>Inception Date</u>
Employers Mutual Co.	Property Liability	\$ 15,746,515	04/01/13		8A9-30-44---13	1 Yr.	04/01/12
		1,000,000	Each Occurrence		8D9-30-44---13	1 Yr.	04/01/12
	Business Auto	2,000,000	Aggregate				
	Crime Coverage	1,000,000			8E9-30-44---13		
	Loss Inside Premises	10,000			8F9-30-44---13	1 Yr.	04/01/12
	Loss Outside Premises	10,000					
	Employee Dishonesty	25,000					
	Forgery	10,000					
	Inland Marine						
	Electronic Data Processing	Various Per Item			8C9-30-44---13	1 Yr.	04/01/12
	Contractors Equipment						
	Scheduled Property Floater						
	Umbrella Liability	5,000,000			8J9-30-40---13	1 Yr.	04/01/12
	Self Insured Retention	10,000					
	Worker's Compensation	500,000			8H9-30-44---13	1 Yr.	04/01/12
	Commercial Output	Various Per Item			8B9-30-44---13		
The Hartford Accident and Indemnity Company	Linebacker	1,000,000	Each Occurrence		8X9-30-44---13	1 Yr.	04/01/12
	Law Enforcement	1,000,000	Each Occurrence		8G9-30-44---13		
		2,000,000	Aggregate				
	Volunteer Firefighters		03/23/13				
	Accidental Death & Dismember Benefit	50,000		Volunteer Firefighters	83-VP-730207	1 Yr.	03/23/11
	Accident Total Disability Benefit	100		Blanket			
	Accelerated Benefit (Living Benefit Option)	25,000		Accident Policy			
				Weekly Benefit			
				Up to Age 65			

CITY OF WEST LIBERTY
General Obligation and Revenue Bonds and Notes Maturities
June 30, 2012

Year Ending June 30,	<u>Pool Project</u> <u>Issued September 1, 2002</u>		<u>Street Improvements Bond</u> <u>Issued August 15, 2009</u>		<u>Elm Street GO Note</u> <u>Issued November 1, 2006</u>		<u>GO Capital Loan</u> <u>Issued December 15, 2009</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2013	4.70%	33,600	1.80%	130,000	3.95%	85,000	1.70%	90,000
2014		0	2.15%	130,000	4.00%	90,000	2.15%	95,000
2015		0	2.50%	130,000	4.05%	95,000	2.55%	95,000
2016		0	2.80%	135,000	4.10%	95,000	2.80%	95,000
2017		0		0	4.15%	100,000	3.05%	100,000
2018		0		0		0	3.25%	105,000
2019		0		0		0	3.45%	105,000
2020		0		0		0	3.60%	110,000
2021		0		0		0	3.75%	115,000
2022		0		0		0	3.85%	120,000
2023		0		0		0	3.95%	125,000
2024		0		0		0	4.00%	130,000
2025		0		0		0	4.10%	135,000
Total		\$ 33,600		525,000		465,000		1,420,000

See Accompanying Independent Auditors' Report.

CITY OF WEST LIBERTY
General Obligation and Revenue Bonds and Notes Maturities (Continued)
June 30, 2012

Year Ending June 30,	<u>Electric Revenue Refunding</u> <u>Issued May 3, 2011</u>		<u>Sewer Go Note</u> <u>Issued September 1, 2002</u>		<u>Sewer Revenue Capital Note</u> <u>Issued December 15, 2008</u>		<u>Solid Waste Garbage Truck</u> <u>Issued December 12, 2007</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2013	1.10%	390,000	4.70%	16,400	5.00%	145,000	5.00%	12,235
2014	1.40%	395,000		0	5.25%	150,000		0
2015	1.80%	400,000		0	5.50%	160,000		0
2016	2.20%	405,000		0	5.75%	165,000		0
2017	2.50%	420,000		0	6.00%	175,000		0
2018	2.80%	420,000		0	6.10%	185,000		0
2019		0		0	6.20%	195,000		0
2020		0		0	6.30%	210,000		0
2021		0		0	6.40%	225,000		0
2022		0		0	6.50%	235,000		0
2023		0		0	6.60%	250,000		0
2024		0		0	6.70%	270,000		0
2025		0		0	6.80%	285,000		0
2026		0		0	6.90%	305,000		0
2027		0		0	7.00%	330,000		0
2028		0		0	7.05%	350,000		0
Total		<u>\$ 2,430,000</u>		<u>16,400</u>		<u>3,635,000</u>		<u>12,235</u>

Bank Note

See Accompanying Independent Auditors' Report.

CITY OF WEST LIBERTY
Computation of Legal Debt Margin
June 30, 2012

Actual Valuation at January 1, 2010	\$ 134,823,837
Times %	x 5%
Legal Debt Limitation	<u>6,827,714</u>
 Debt Applicable to Limitation	
Outstanding General Obligation Bonds and Notes at June 30, 2012	<u>2,486,995</u>
 Legal Debt Margin	<u><u>\$ 4,340,719</u></u>

CITY OF WEST LIBERTY
 Electric Utility - Restricted Accounts Required by Bond Ordinance
 Restricted Accounts Required by Bond Ordinance
 June 30, 2012

	Account			
	Current Debt Service	Future Debt Service Reserve	Contingency (Renewal and Replacement)	Total
Cash and Investments - Beginning of Year	\$ 129,273	281,500	580,108	990,881
Cash Receipts - Transfers From Operating Cash	650,594	0	0	650,594
Total Cash and Investments Available	779,867	281,500	580,108	1,641,475
Cash Disbursements:				
Principal Payments	385,000	0	0	385,000
Interest Payments	53,050	0	0	53,050
Total Cash Disbursement	438,050	0	0	438,050
Cash and Investments - End of Year	\$ 341,817	281,500	580,108	1,203,425

CITY OF WEST LIBERTY
Sewer Utility - Revenue Bond and Note
Restricted Accounts Required by Bond Ordinance
June 30, 2012

	Account			
	Current Debt Service	Future Debt Service Reserve	Contingency (Renewal and Replacement)	Total
Cash and Investments - Beginning of Year	\$ 32,550	528,000	417,662	978,212
Cash Receipts - Transfers From Operating Cash	390,984	0	58,379	449,363
Total Cash and Investments Available	423,534	528,000	476,041	1,427,575
Cash Disbursements:				
Principal Payments	149,760	0	0	149,760
Interest Payments	240,845	0	0	240,845
Total Cash Disbursement	390,605	0	0	390,605
Cash and Investments - End of Year	\$ 32,929	528,000	476,041	1,036,970

CITY OF WEST LIBERTY
Sewer Rates and Customers
June 30, 2012

Number of Sewer Customers as of June 30, 2012: 1,410

Sewer Rates as of June 30, 2012: \$4.30/1,000 gallons/month plus \$18.50 user fee/month
minimum of 0-1,000 gallons \$22.80

Rural Usage: \$4.88/1,000 gallons/month plus \$26.83 user fee/month
minimum for 0-1,000 gallons \$31.71

CITY OF WEST LIBERTY

Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards

June 30, 2012

HUCKFELDT & SMITH

Randy L. Linn, CPA
David A. Schebler, CPA
Randall B. Sovey, CPA

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Liberty (the City), Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 2, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The Management of the City of West Liberty is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings, we have identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of West Liberty's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as items II-B-12 to be a significant deficiency.

Compliance and Other Matters

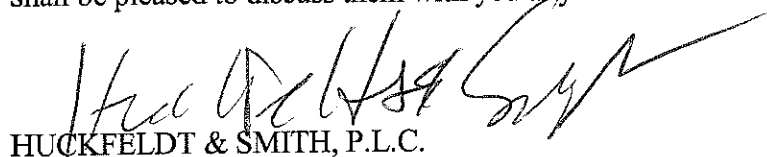
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's response to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses, and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of West Liberty and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of West Liberty during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



HUCKFELDT & SMITH, P.L.C.
January 8, 2013

CITY OF WEST LIBERTY
Schedule of Findings
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFECIENCIES:

- II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize the segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal controls possible under the circumstances. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions.

Response – The City will consider this.

Conclusion – Response accepted.

- II-B-12 Financial Statement Preparation - Management has chosen to utilize the auditors in drafting the annual financial statements and footnotes.

Recommendation – Management should prepare the financial statements but has not obtained the sufficient expertise necessary to prepare the financial statements and the footnotes

Response – Management agrees and understands.

Conclusion – Response accepted.

CITY OF WEST LIBERTY

Schedule of Findings
Year Ended June 30, 2012

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-12 Questionable Disbursements- No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- III-B-12 Travel Expenses- No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-C-12 Business Transactions- No business transactions between the City and City officials or employees are noted.
- III-D-12 Bond Coverage- Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- III-E-12 Council Minutes- No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-F-12 Deposits and Investments- No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-G-12 Revenue Notes- No instances of non-compliance with the revenue note provisions were noted.
- III-H-12 Financial Condition- The Dutton Complex, a capital project fund, had a deficit fund balance at June 30, 2012 of \$93,956. The Street Improvement Fund, a capital project fund, had a deficit fund balance at June 30, 2012 of \$709,764.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -- Expenditures will be budgeted to offset the deficit balances.

Conclusion -- Response accepted.

- III-I-12 Certified Budget- Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the general government and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response -- The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

CITY OF WEST LIBERTY
Schedule of Findings
Year Ended June 30, 2012

Part III: Other Findings Related to Required Statutory Reporting (Continued):

III-J-12 Special Tax Levy Collections- Taxes levied for employee benefits should be recorded in a Special Revenue Fund.

Recommendation - The City should record the funds in a Special Revenue Fund.

Response – The City will create a Special Revenue Fund to account for the employee benefit tax levies.

Conclusion – Response accepted.